



**800 MHz RECONFIGURATION
STATEMENT OF PROGRAM EXPENDITURES
DECEMBER 31, 2012**

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OVERVIEW

800 MHz Transition Administrator, LLC (“TA”) provides to the Federal Communications Commission (“FCC”) the audited Statement of Program Expenditures, reporting funds expended in connection with the reconfiguration of the 800 MHz band for the year ended December 31, 2012 and during the period from August 6, 2004 (“Inception”) through December 31, 2012. Pursuant to the FCC’s *Reconfiguration Orders*,² the TA,³ as the manager of the reconfiguration effort, is required to submit on an annual basis an audited statement of reconfiguration funds expended, including salaries and expenses of the TA.⁴

² Improving Public Safety Communications in the 800 MHz Band, *Report and Order, Fifth Report and Order, Fourth Memorandum Opinion and Order, and Order*, 19 FCC Rcd 14969 (2004), amended by *Erratum*, WT Docket No. 02-55 (rel. Sep. 10, 2004); *Second Erratum*, 19 FCC Rcd 19651 (2004); *Third Erratum*, 19 FCC Rcd 21818 (2004); *Supplemental Order and Order on Reconsideration*, 19 FCC Rcd 25120 (2004), amended by *Erratum*, WT Docket No. 02-55 (rel. Jan. 19, 2005); *Memorandum Opinion and Order*, 20 FCC Rcd 16015 (2005); *Second Memorandum Opinion and Order*, 22 FCC Rcd 10467 (2007), amended by *Erratum*, WT Docket No. 02-55 (rel. July 26, 2007); *Third Memorandum Opinion and Order*, 22 FCC Rcd 17209 (2007); *Second Report and Order*, 23 FCC Rcd 7605 (2008), amended by *Erratum*, WT Docket No. 02-55 (rel. May 28, 2008); *Fourth Memorandum Opinion and Order*, 23 FCC Rcd 18512 (2008); *Third Report and Order and Third Further Notice of Proposed Rulemaking*, 25 FCC Rcd 4443 (2010); *Fourth Report and Order*, 26 FCC Rcd 1937 (2011); *Fifth Report and Order*, 28 FCC Rcd 4085 (2013) (collectively “Reconfiguration Orders”).

³ 800 MHz Transition Administrator, LLC is the Transition Administrator for the reconfiguration of the 800 MHz band as mandated by the FCC. 800 MHz Transition Administrator, LLC has contracted with Deloitte Consulting LLP, Squire Sanders (US) LLP, and Baseline Wireless Services, LLC (each a “TA Member” and collectively “TA Members”) to perform the duties of the TA.

⁴ *Report and Order*, 19 FCC Rcd at 15073, 47 C.F.R. § 90.676(b)(4).

INDEPENDENT AUDITORS' REPORT

To 800 MHz Transition Administrator, LLC:

We have audited the accompanying Statement of Program Expenditures of the 800 MHz Reconfiguration Program (Program) for the year ended December 31, 2012 and for the period August 6, 2004 (Inception) through December 31, 2012, which collectively comprise the Statement of Program Expenditures, and the related notes thereto. Sprint Nextel and the 800 MHz Transition Administrator, LLC are responsible for the preparation and fair presentation of the Statement of Program Expenditures; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Statement of Program Expenditures that are free from material misstatement, whether due to fraud or error.

Our responsibility is to express an opinion on the Statement of Program Expenditures based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement of Program Expenditures is free from material misstatement.

An audit involves performing procedures to obtain evidence supporting the amounts and disclosures in the Statement of Program Expenditures. The procedures selected depend on the auditor's judgment, including an assessment of the risks of material misstatement, whether due to fraud or error, to the Statement of Program Expenditures. In making those risk assessments, the auditor considers internal control relevant to Sprint Nextel's and the 800 MHz Transition Administrator, LLC's preparation and fair presentation of the Statement of Program Expenditures in order to design audit procedures that are appropriate to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Sprint Nextel's and the 800 MHz Transition Administrator, LLC's internal controls. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Statement of Program Expenditures.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

As described in Note II, the Statement of Program Expenditures was prepared using the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the Statement of Program Expenditures referred to above presents fairly in all material respects, the Program expenditures of the 800 MHz Reconfiguration Program for the year ended December 31, 2012 and for the period August 6, 2004 (Inception) through December 31, 2012, on the basis of accounting described in Note II.

In accordance with Government Auditing Standards, we have also issued our report dated June 28, 2013, on our consideration of the 800 MHz Reconfiguration Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters including the requirements of the Federal Communications Commission *Improving Public Safety Communications in the 800 MHz Band*, Report and Order, Fifth Report and Order, Fourth Memorandum Opinion and Order, and Order, 19 FCC Rcd 14969 (2004), as amended, modified and supplemented. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

A handwritten signature in cursive script that reads "Cohn Reznick LLP".

Bethesda, Maryland
June 28, 2013

**800 MHz RECONFIGURATION
STATEMENT OF PROGRAM EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2012
AND FOR THE PERIOD FROM
AUGUST 6, 2004 (INCEPTION) THROUGH DECEMBER 31, 2012**

(in thousands, unless otherwise noted)

	For the Year Ended December 31, 2012	Inception Through December 31, 2012
800 MHz Incumbent Reconfiguration Costs (Note III)	\$ 117,435	\$ 767,536
Sprint Nextel Costs (Note IV)	8,298	217,956
Letter of Credit Fees (Note V)	40,239	246,215
800 MHz Transition Administrator Fees & Expenses (Note VI)	26,082	258,707
Total Program Expenditures	\$ 192,054	\$ 1,490,414

See Notes to the Statement of Program Expenditures.

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I. 800 MHz RECONFIGURATION PROGRAM DESCRIPTION

A. Program Background

The Federal Communications Commission (“FCC”) on August 6, 2004 (“Inception”) ordered in its *Improving Public Safety Communications in the 800 MHz Band*, Report and Order, Fifth Report and Order, Fourth Memorandum Opinion and Order, and Order, 19 FCC Rcd 14969 (2004), as amended, modified and supplemented (“Report and Order”) the reconfiguration of the 800 MHz band (“800 MHz Reconfiguration” or “Program”) to eliminate interference to critical public safety communications from commercial wireless carriers operating in the band. Over the past several years, public safety and other “high-site” radio systems – including those used by police, firefighters, emergency services, utilities, businesses, and others operating in the 806-824 MHz/851-869 MHz band (the “800 MHz band”) – increasingly experienced equipment interference problems and communications “dead zones” as a result of technically incompatible “low-site” commercial wireless systems operating in the same or adjacent spectrum bands. This issue became more problematic as low-site systems flourished (such as those of Sprint Nextel) and high-site 800 MHz public safety systems became more widespread.

In order to alleviate the interference between the two types of systems, 800 MHz Reconfiguration is relocating public safety licensees to lower segments of the band and commercial cellular networks to higher segments. Additionally, an “Expansion Band” and a “Guard Band” have been created to serve as a buffer between the different systems. The Program is being overseen by a Transition Administrator, the 800 MHz Transition Administrator, LLC (“TA”).

Pursuant to the Report and Order, completion of the 800 MHz Reconfiguration was initially required by June 26, 2008. The FCC has granted and continues to grant 800 MHz public safety licensees additional time to complete their band reconfigurations. In addition, certain licensees located close to the United States-Canada border could not reconfigure until the two countries completed negotiations concerning the coordination of new frequency plans that would permit the licensees within the United States to be relocated to different frequencies. In October 2008, the TA released, and the FCC subsequently adopted, the Canadian Implementation Plan (“CIP”) and timetable for the 800 MHz Reconfiguration along the United States-Canada border. The CIP provided for a 30-month reconfiguration period, starting October 14, 2008 and ending April 14, 2011. The FCC has granted and continues to grant 800 MHz public safety licensees located close to the United States-Canada border additional time to complete their band reconfigurations. Likewise, in April 2013, the FCC adopted a reconfigured channel plan for the 800 MHz band along the United States-Mexico border based on the international allocation of the 800 MHz spectrum that was negotiated by the two countries. Pursuant to the order adopting the channel plan, the TA is required to submit to the FCC a Mexican Implementation Plan (“MIP”) and timetable for the 800 MHz Reconfiguration along the United States-Mexico border. The MIP will provide for a 30-month

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reconfiguration period, starting August 23, 2013 and ending February 23, 2016. Accordingly, the FCC has extended the negotiation period for licensees located close to the United States-Mexico border.

B. Affected Parties

The primary parties affected by the reconfiguration process include:

1. 800 MHz Incumbent Licensees

The FCC ordered certain licensees operating 800 MHz systems (“800 MHz Incumbent Licensees”) to relocate their systems to comparable facilities at new frequencies and required Sprint Nextel to pay the reasonable and prudent expenses directly related to such relocations. The 800 MHz Incumbent Licensees negotiate and enter into Frequency Reconfiguration Agreements (“FRAs”) and, if needed, Planning Funding Agreements (“PFAs”), (collectively “800 MHz Agreements”) with Sprint Nextel to document the terms of incumbent reconfigurations. The TA evaluates and approves requests for planning funding and cost estimates associated with these reconfigurations. The TA also evaluates amounts expended at the completion of each licensee reconfiguration to provide reasonable assurance that the amounts expended are consistent with TA-approved amounts.

2. Sprint Nextel

Sprint Nextel is charged by the FCC with funding 800 MHz Reconfiguration expenditures, including relocation costs of affected licensees, costs of reconfiguring many of Sprint Nextel’s own 800 MHz operations, and other Program expenditures, such as TA and audit fees. To ensure reconfiguration of all affected licensees is completed nationwide, the FCC initially required Sprint Nextel to obtain an irrevocable letter of credit (“Letter of Credit”) in the amount of \$2.5 billion and commit to fully funding the 800 MHz Reconfiguration. The amount of the Letter of Credit has been subsequently reduced for amounts paid by Sprint Nextel for costs to accomplish the relocation while also taking into account the then-current forecast of remaining costs to complete the 800 MHz Reconfiguration.

Sprint Nextel has received spectrum in the 1.9 GHz band and has relinquished spectrum within the 800 MHz band to 800 MHz band licensees. At the culmination of reconfiguration, the FCC will make available to qualified entities the channels in the 800 MHz band surrendered by Sprint Nextel. To ensure that Sprint Nextel does not realize any windfall gain, at completion of reconfiguration, the FCC will require Sprint Nextel to pay into the U.S. Treasury the difference between the value of the 1.9 GHz spectrum it received (\$4.86 billion) and the sum of i) the net value of spectrum rights that Sprint Nextel has relinquished to 800 MHz band licensees (\$2.059 billion); ii) the actual cost of 800 MHz band reconfiguration (“800 MHz Reconfiguration Program Expenditures”); and

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iii) costs incurred by Sprint Nextel to clear the 1.9 GHz band, less any reimbursed expenses.

3. 800 MHz Transition Administrator, LLC (“TA”)

The TA is an independent entity charged with administrative and financial aspects of the reconfiguration process and is a wholly-owned subsidiary of Baseline Wireless Services, LLC.⁵ The TA contracted with Deloitte Consulting LLP, Squire Sanders (US) LLP and Baseline Wireless Services, LLC to perform the duties of the TA. Among its duties, the TA establishes reconfiguration guidelines, specifies replacement channels, evaluates cost estimates, monitors payment of and evaluates 800 MHz licensee reconfiguration costs, assesses Sprint Nextel internal costs of relocation, manages the relocation schedule, facilitates issue resolution and administers the alternative dispute resolution process.

II. SIGNIFICANT ACCOUNTING PRINCIPLES

A. Final Accounting, Scope of 800 MHz Reconfiguration Statement of Program Expenditures and Basis of Accounting

The Report and Order originally provided that the Program would be completed by June 28, 2008, with a financial reconciliation or “Final Accounting” completed within six months thereafter to determine any payment due from Sprint Nextel to the U.S. Treasury. In December 2012, the FCC extended the Final Accounting until July 1, 2013, and on June 27, 2013 provisionally extended the Final Accounting until December 31, 2013 (See Note IX.B). Additionally, the FCC provided the ability for further extensions of the Final Accounting to be granted in the future based on the progress of the 800 MHz Reconfiguration. When the Final Accounting is performed, any payment due to the U.S. Treasury would be calculated as the difference between:

- the \$4.86 billion assigned value of the 1.9 GHz band spectrum rights received by Sprint Nextel; and
- the net sum of:
 - i) the \$2.059 billion assigned value of the spectrum Sprint Nextel relinquished in the 800 MHz band;

⁵ Prior to May 8, 2009, the TA was a wholly-owned subsidiary of BearingPoint, Inc. and the TA had contracted with BearingPoint, Inc., Squire Sanders (US) LLP and Baseline Wireless Services, LLC to perform the duties of the TA. As of May 8, 2009, Deloitte Consulting LLP, a subsidiary of Deloitte LLP, has replaced BearingPoint, Inc. as a contractor to the TA and, as a result, has assumed BearingPoint, Inc.’s responsibilities with respect to the Program. On May 20, 2009, the FCC approved (Improving Public Safety Communications in the 800 MHz Band, WT Docket No. 02-55, Order, DA 09-1102 (rel. May 20, 2009)) the transfer of ownership of the TA to Baseline Wireless Services, LLC. The ownership transfer was made the same day.

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- ii) the 800 MHz Reconfiguration Program Expenditures; and
- iii) the costs incurred by Sprint Nextel to clear the 1.9 GHz band, less any reimbursed expenses.

The scope of the Statement of Program Expenditures is limited to 800 MHz Reconfiguration Program Expenditures submitted by Sprint Nextel to the TA for assessment and assessed by the TA as allowable 800 MHz Reconfiguration Program Expenditures, subject to Sprint Nextel's performance in accordance with the Report and Order ("Creditable Expenditures"). Additionally, there are certain expenditures submitted by Sprint Nextel that have been excluded from the Statement of Program Expenditures because more information is needed from Sprint Nextel and/or certain 800 MHz Incumbent Licensees in order for the TA to complete its assessment. In addition, there are certain expenditures Sprint Nextel has not yet submitted to the TA for credit assessment. These expenditures not yet submitted, or submitted but open for more information, may ultimately be assessed as Creditable Expenditures during a subsequent reporting period (See Notes VII and VIII).

The Statement of Program Expenditures excludes costs incurred by Sprint Nextel to clear the 1.9 GHz band, less any reimbursed expenses. In accordance with the Report and Order, such costs are maintained by Sprint Nextel and are required to be audited on an annual basis.

Therefore, the Statement of Program Expenditures represents Creditable Expenditures presented on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

B. 800 MHz Incumbent Reconfiguration Costs

The 800 MHz Incumbent Reconfiguration Costs reflect amounts Sprint Nextel paid:

- to 800 MHz Incumbent Licensees or their vendors in accordance with TA-approved 800 MHz Agreements executed by 800 MHz Incumbent Licensees and Sprint Nextel ("800 MHz Licensee Costs"); and
- for 800 MHz Incumbent Licensee subscriber equipment which requires, as a result of relocation, either a software upgrade or replacement ("800 MHz Replacement Equipment Costs").

The 800 MHz Licensee Costs include Sprint Nextel payments for:

- actual costs pursuant to closed TA-approved 800 MHz Agreements;
- advance payments of cost estimates pursuant to TA-approved 800 MHz Agreements that have not yet closed; and

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- sales and use taxes, FCC filing fees and certain other costs Sprint Nextel is required to pay under the terms of the TA-approved 800 MHz Agreements.

The TA-approved 800 MHz Agreements require 800 MHz Incumbent Licensees to provide Sprint Nextel, prior to closing, with the supporting documentation for the actual costs pursuant to their 800 MHz Agreements. The 800 MHz Agreements further require Sprint Nextel and 800 MHz Incumbent Licensees to reconcile the estimated costs included in TA-approved cost estimates to the actual costs supported (“Actual Costs”) to determine any additional amounts due to the 800 MHz Incumbent Licensees or any refund due to Sprint Nextel (the “Actual Cost Reconciliation Process”). Certain payment terms included in the TA-approved 800 MHz Agreements require Sprint Nextel to make, based on the TA-approved cost estimates included in such agreements, advanced payments prior to the completion of the Actual Cost Reconciliation Process.

The 800 MHz Replacement Equipment Costs relate to expenditures for:

- development of software for certain 800 MHz Incumbent Licensee subscriber equipment that enables such subscriber equipment to be retuned rather than replaced and the related software upgrade kits included in TA-approved 800 MHz Agreements; and
- replacement equipment for certain 800 MHz Incumbent Licensee subscriber and infrastructure equipment where such replacement equipment is to be provided by Sprint Nextel pursuant to such TA-approved 800 MHz Agreements.

The scope of the 800 MHz Incumbent Reconfiguration Costs reflected in the Statement of Program Expenditures is limited, and, accordingly, these amounts do not include all of the 800 MHz Incumbent Reconfiguration Costs incurred through December 31, 2012 that may ultimately be assessed as Creditable Expenditures during a subsequent reporting period (See II.A. above).

C. Sprint Nextel Costs

Sprint Nextel Costs reflect expenditures by Sprint Nextel for:

- Program Expenditures such as i) 800 MHz Incumbent Licensee negotiation costs for broker and legal fees; ii) systems development costs to support tracking and reporting of 800 MHz Reconfiguration activity and expenditures; and iii) Sprint Nextel’s program and financial management costs, such as fees related to Sprint Nextel legal, management and coordination support, financial management and audit expenditures, and other program costs incurred by Sprint Nextel (“Program Costs”); and

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- the reconfiguration of Sprint Nextel's systems in the 800 MHz band, such as installing improved filters in Sprint Nextel's 800 MHz base station transmitters and relocating Sprint Nextel operations to new channels ("Internal Network Costs").

The scope of the Sprint Nextel Costs reflected in the Statement of Program Expenditures is limited, and, accordingly, these amounts do not include all of the Sprint Nextel Costs incurred through December 31, 2012 that may ultimately be assessed as Creditable Expenditures during a subsequent reporting period (See II.A. above).

D. Letter of Credit Fees

Letter of Credit Fees reflect the costs of the Letter of Credit maintained by Sprint Nextel as security for payment of 800 MHz Incumbent Reconfiguration Costs. The TA may initiate draws on the Letter of Credit to pay 800 MHz Incumbent Licensees or their vendors in the event that Sprint Nextel fails to make payment within 30 days of a payment obligation date and fails to demonstrate good cause for non-payment within 40 days of a payment obligation date. The initial amount of the Letter of Credit was established at \$2.5 billion and may be reduced over the life of the Program, as Sprint Nextel's remaining payment obligations related to 800 MHz Incumbent Reconfiguration Costs are reduced, however, the Letter of Credit balance may not be reduced below \$850 million. The original Letter of Credit, as amended, was scheduled to expire on October 31, 2013 and has subsequently been amended to expire in February 2018 (See Note IX.B).

Letter of Credit Fees are governed by the credit agreement, as may be amended from time to time, that Sprint Nextel has entered into with its banks. As of December 31, 2012, the Letter of Credit costs accrue daily based on the Letter of Credit exposure, defined as the sum of i) the undrawn amount of the outstanding Letter of Credit, plus ii) the aggregate amount of all disbursements made pursuant to the Letter of Credit not reimbursed by Sprint Nextel.

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As of December 31, 2012, Letter of Credit Fees are comprised of the following fees:

Type of Fee	Percentage Range Inception through December 31, 2012		As of December 31, 2012
	Low	High	
Fronting Fee	0.10% per annum	0.25% per annum	0.25% per annum
Participation Fee	0.30% per annum	4.00% per annum	4.00% per annum
Facility Fee ⁶	0.10% per annum	0.15% per annum	N/A

The participation fee varies depending on Sprint Nextel's corporate credit rating, as published by Standard & Poor's Rating Services and Moody's Investors Service, Inc.

E. 800 MHz Transition Administrator Fees & Expenses

TA Fees are billed in accordance with the TA's agreements with Sprint Nextel. Labor is billed at contractually agreed hourly rates and reasonable costs and expenses, including travel, are billed as incurred (See Note I.B.3).

III. 800 MHz INCUMBENT RECONFIGURATION COSTS

Total 800 MHz Incumbent Reconfiguration Costs are as follows:

	For the Year Ended December 31, 2012	Inception Through December 31, 2012
Closed TA-approved 800 MHz Agreements	\$ 57,734	\$ 181,158
TA-approved 800 MHz Agreements not yet Closed	<u>59,701</u>	<u>554,297</u>
800 MHz Licensee Costs	117,435	735,455
800 MHz Replacement Equipment Costs	<u>-</u>	<u>32,081</u>
800 MHz Incumbent Reconfiguration Costs	<u>\$ 117,435</u>	<u>\$ 767,536</u>

The amounts submitted to the TA for 800 MHz Licensee Costs, net of Amounts Open for More Information to Allow Credit Assessment (See Footnote VII), for the year ended

⁶ As of November 3, 2008, pursuant to an amendment of the credit facility between Sprint Nextel and its banks, the Facility Fee was terminated.

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December 31, 2012 included \$55,260 paid to Motorola and \$13,480 paid to Harris Corporation. Additionally, the amounts for the period of Inception through December 31, 2012 included \$315,494 paid to Motorola and \$45,002 paid to Harris Corporation and \$8,471 paid to M/A-COM, Inc., which was acquired by Harris Corporation on April 16, 2009. The amounts paid for 800 MHz Replacement Equipment Costs relate to software development costs paid to Motorola.

Total TA-approved and executed cost estimates (including amendments to cost estimates) as adjusted to reflect TA-approved Actual Costs, and 800 MHz Licensee Costs are as follows:

	For the Year Ended December 31, 2012	Inception Through December 31, 2012
PFA's	\$ (472)	\$ 100,184
FRA's	<u>13,941</u>	<u>996,430</u>
Total TA-approved and Executed Agreements, as adjusted to reflect TA-approved Actual Costs	13,469	1,096,614
800 MHz Licensee Costs	<u>117,435</u>	<u>735,455</u>
800 MHz Licensee Costs available to be Included in a Subsequent Statement of Program Expenditures ⁷	<u>\$ (103,966)</u>	<u>\$ 361,159</u>

The scope of the 800 MHz Incumbent Reconfiguration Costs reflected in the Statement of Program Expenditures is limited and, accordingly, these amounts do not include all of the 800 MHz Incumbent Reconfiguration Costs incurred through December 31, 2012 that may ultimately be assessed as Creditable Expenditures during a subsequent reporting period (See Note II).

⁷ 800 MHz Licensee Costs include payments for TA-approved and Executed Agreements, as adjusted to reflect TA-approved Actual Costs from Inception Through December 31, 2012. For the Year Ended December 31, 2012, 800 MHz Licensee Costs may be greater than or less than TA-approved and Executed Agreements, as adjusted to reflect TA-approved Actual Costs because all costs are generally not incurred in the same year that an Executed Agreement is approved by the TA.

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IV. SPRINT NEXTEL COSTS

Total Sprint Nextel Costs are as follows:

	For the Year Ended December 31, 2012	Inception Through December 31, 2012
Program Costs	\$ 8,298	\$ 94,392
Internal Network Costs	-	123,564
Sprint Nextel Costs	<u>\$ 8,298</u>	<u>\$ 217,956</u>

The scope of the Sprint Nextel Costs reflected in the Statement of Program Expenditures is limited, and, accordingly, these amounts do not include all of the Sprint Nextel Costs incurred through December 31, 2012, which may ultimately be assessed as Creditable Expenditures during a subsequent reporting period (See Note II).

V. LETTER OF CREDIT FEES

At December 31, 2012 and December 31, 2011, the amount of the Letter of Credit was \$858.5 million and \$1,023.0 million, respectively, and has been subsequently reduced (See Note IX.B). The amount of the Letter of Credit may be reduced over the life of the Program (See Note II.D). Through December 31, 2012, there were no draws or disbursements on the Letter of Credit. Letter of Credit Fees paid by Sprint Nextel for the year ended December 31, 2012 and for the period of Inception through December 31, 2012 are \$40,239 and \$246,215, respectively.

VI. 800 MHz TRANSITION ADMINISTRATOR FEES AND EXPENSES

Fees for labor hours and expenses of the TA paid by Sprint Nextel for the year ended December 31, 2012 and for the period of Inception through December 31, 2012 are \$26,082 and \$258,707, respectively.

VII. SUBMITTED PROGRAM EXPENDITURES (Unaudited)

The scope of the Statement of Program Expenditures is limited to 800 MHz Reconfiguration Program Expenditures submitted by Sprint Nextel for TA assessment and assessed by the TA as allowable 800 MHz Reconfiguration Program Expenditures (See Note II). In certain circumstances, the TA has requested more information from Sprint Nextel and/or 800 MHz Incumbent Licensees in order to allow the TA to complete the credit assessment.

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As of December 31, 2012, expenditures submitted for credit and assessed as creditable or open for additional information are as follows:

	Expenditures Submitted for Credit Assessment	Amounts Assessed as Creditable Expenditures	Amounts Open for More Information to Allow Credit Assessment
800 MHz Incumbent Reconfiguration Costs	\$ 826,432	\$ 767,536	\$ 58,896
Sprint Nextel Costs	282,437	217,956	64,481
Letter of Credit Fees	246,215	246,215	-
TA Fees & Expenses	258,707	258,707	-
Total Costs Submitted	<u>\$ 1,613,791</u>	<u>\$ 1,490,414</u>	<u>\$ 123,377</u>

VIII. TO BE SUBMITTED PROGRAM EXPENDITURES (Unaudited)

The scope of the 800 MHz Incumbent Reconfiguration Costs reflected in the Statement of Program Expenditures is limited, and, accordingly, does not include all of the 800 MHz Incumbent Reconfiguration Costs incurred through December 31, 2012 that may ultimately be assessed as Creditable Expenditures during a subsequent reporting period (See Note II).

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Costs to be included in a subsequent Statement of Program Expenditures when i) such costs have been paid, submitted by Sprint Nextel for credit assessment, and determined by the TA to be Creditable Expenditures, or ii) once the TA has received and evaluated the additional information requested in order to allow credit assessment are as follows:

800 MHz Licensee Costs to be Included in a Subsequent Statement of Program Expenditures	\$	361,159
Less:		
800 MHz Licensee Costs Submitted for Credit but Classified as Open for More Information to Allow Credit Assessment		<u>58,896</u>
800 MHz Licensee Costs Not yet Paid or Submitted for Credit, Subject to the Actual Cost Reconciliation Process		302,263
Letter of Credit Fees Incurred but Not yet Paid		101
TA Fees & Expenses Incurred but Not yet Paid		<u>3,235</u>
Total Costs to be Included in a Subsequent Statement of Program Expenditures, Pending Assessment as Creditable Expenditures	\$	<u><u>305,599</u></u>

Sprint Nextel estimated expenditures reported to the TA and available to be submitted to the TA for credit assessment in a subsequent period (“Estimated – To Be Submitted Costs”) are as follows:

		Inception Through December 31, 2012
800 MHz Replacement Equipment Costs	\$	846,361
Sprint Nextel Costs		<u>59,910</u>
Estimated – To Be Submitted Costs	\$	<u><u>906,271</u></u>

The estimated 800 MHz Replacement Equipment Costs primarily relate to equipment purchased pursuant to fulfillment agreements entered into between Sprint Nextel and

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various manufacturers that is expected to be used in fulfillment of certain replacement equipment under the terms of 800 MHz Agreements.

The estimated Sprint Nextel Costs relate to \$24,843 in Internal Network Costs and \$35,067 in Program Costs.

These estimated amounts may be subject to change, and the actual expenditures submitted for credit assessment in the future could be more or less than the estimated amounts presented here. These amounts are the best estimates as of December 31, 2012, given the known events and circumstances at this point in time.

During the period from Inception through December 31, 2012, Sprint Nextel has advised the TA that it has incurred certain costs related to Sprint Nextel's Internal Network that Sprint Nextel may submit for credit at a later date ("To Be Determined Sprint Nextel Costs"), but cannot be reasonably estimated at this time. These costs relate to internal labor costs, program costs and amounts paid to Sprint Nextel's vendors and may be significant.

At this time, Sprint Nextel has advised the TA that it is unable to estimate when the Estimated - To Be Submitted Costs and the To Be Determined Sprint Nextel Costs (collectively, "To Be Submitted Costs") will be submitted for credit. Ultimately, some of these costs may not be submitted for credit if submitted costs are such that no payment will be due from Sprint Nextel to the U.S. Treasury.

The TA will assess the To Be Submitted Costs when Sprint Nextel submits these costs, together with supporting documentation, for TA evaluation. The To Be Submitted Costs and any amounts classified as open for more information to allow credit assessment that are determined by the TA to be Creditable Expenditures will be included in a subsequent audited Statement of Program Expenditures.

IX. SUBSEQUENT EVENTS

Events that occur after December 31, 2012, but before the Statement of Program Expenditures was issued or available to be issued, must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed on or before December 31, 2012 are recognized in the accompanying Statement of Program Expenditures. Subsequent events that provide evidence about conditions that existed after December 31, 2012 require disclosure in the accompanying notes. All activity of the Program through June 28, 2013 (the date the Statement of Program Expenditures was available to be issued) was evaluated and the following subsequent events that require disclosure were identified. No additional subsequent events have occurred that require recognition in the Statement of Program Expenditures or disclosure in the notes thereto.

800 MHz RECONFIGURATION
NOTES TO THE STATEMENT OF PROGRAM EXPENDITURES
DECEMBER 31, 2012
(in thousands, unless otherwise noted)

A. Petition for Declaratory Ruling

On January 22, 2013, Sprint Nextel filed a Petition for Declaratory Ruling (“Petition”) requesting that the FCC declare that Sprint Nextel will not be required to make an anti-windfall payment to the U.S. Treasury because it has spent more than \$2.8 billion for 800 MHz Reconfiguration and Broadcast Auxiliary Service relocation. The Petition also asks the FCC to direct the TA to conduct the Program’s financial reconciliation “true-up,” to streamline certain financial aspects of the 800 MHz Reconfiguration, and to reduce the required minimum amount of the Letter of Credit below the \$850 million “floor” established in the Reconfiguration Orders. The Petition is currently pending before the FCC.

B. Final Accounting Postponed

The 800 MHz Reconfiguration was originally contemplated to be completed by June 28, 2008 with a “Final Accounting” completed within six months thereafter to determine any payment due from Sprint Nextel to the U.S. Treasury. On June 27, 2013, the FCC provisionally postponed the Final Accounting until December 31, 2013 with an associated report to be filed by the TA no later than June 30, 2014. The FCC also directed the TA to file a report by November 15, 2013 with a recommendation on whether the Final Accounting should be conducted as of December 31, 2013 or further postponed. The FCC noted that its provisional extension was “subject to any action the Commission may take on Sprint’s declaratory ruling petition.”⁸

C. Letter of Credit Fees

On February 28, 2013, the Letters of Credit were amended to extend the expiration date from October 2013 to February 2018. In addition, the fronting fee was decreased from 0.25% per year to 0.15% per year, and the participation fee was modified.⁹

At December 31, 2012 and December 31, 2011, the amount of the Letter of Credit was \$858.5 million and \$1,023.0 million, respectively. On March 29, 2013, the amount of the Letter of Credit was reduced to \$850.0 million.

⁸ Improving Public Safety Communications in the 800 MHz Band, Order, DA 13-1456 (Jun. 27, 2013).

⁹ See Credit Agreement Dated February 28, 2013 between Sprint Nextel, Inc. as Borrower and JPMorgan Chase Bank, N.A., as administrative agent, CitiBank, N.A., as syndication agent, and the lenders named therein. Available at <http://www.sec.gov/Archives/edgar/data/101830/000010183013000008/exhibit1018-k20130228.htm>.

800 MHz RECONFIGURATION
NOTES TO THE STATEMENT OF PROGRAM EXPENDITURES
DECEMBER 31, 2012
(in thousands, unless otherwise noted)

D. United States-Mexico Border

On April 1, 2013, the FCC adopted a reconfigured channel plan for the 800 MHz band along the United States-Mexico border based on the international allocation of the 800 MHz spectrum that was negotiated by the two countries. Pursuant to the order adopting the channel plan, the TA is required to subject to the FCC a MIP and timetable for the 800 MHz Reconfiguration band along the United States-Mexico border. The MIP will provide for a 30-month reconfiguration period, starting August 23, 2013 and ending February 23, 2016.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To 800 MHz Transition Administrator, LLC:

We have audited the Statement of Program Expenditures of the 800 MHz Reconfiguration Program (Program) for the year ended December 31, 2012 and for the period from August 6, 2004 (Inception) through December 31, 2012, and have issued our report thereon dated June 28, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Sprint Nextel and the 800 MHz Transition Administrator, LLC are responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Program's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the Statement of Program Expenditures, but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Program's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Statement of Program Expenditures will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 800 MHz Reconfiguration Program's Statement of Program Expenditures is free of material misstatement, we performed tests of its compliance with certain provisions of laws, and regulations, including the Federal Communications Commission *Improving Public Safety Communications in the 800 MHz Band*, Report and Order, Fifth Report and Order, Fourth Memorandum Opinion and Order, and Order, 19 FCC Rcd 14969 (2004), as amended, modified and supplemented, and contracts, noncompliance with which could have a direct and material effect on the determination of Program expenditure amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management of the 800 MHz Transition Administrator, LLC, Sprint Nextel, and the Federal Communication Commission, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Cohn Reznick LLP". The signature is written in a cursive, flowing style.

Bethesda, Maryland
June 28, 2013